

## Message Text

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43

ACTION COME-00

INFO OCT-01 ARA-16 ISO-00 L-03 AID-20 CIAE-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 DOTE-00 DODE-00 PA-04

USIA-15 PRS-01 DRC-01 /120 W  
----- 081737

R 151630Z AUG 74

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 6188

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E.O. 11652 - N/A

TAGS: ELTN, EINV, ES

SUBJECT: IRCA - SITREP

REF: SAN SALVADOR 2681

1. SUMMARY: DURING A TWO DAY VISIT TO EL SALVADOR ABRAHAM WEBER, IRCA PRESIDENT, SPOKE WITH DR JOSE SILVA, MINISTER OF THE PRESIDENCY, AND REVIEWED IRCA'S SITUATION WITH THE AMBASSADOR. HE SAID HE RECEIVED NO INFO CONCERNING THE GOES' INTENTIONS CONCERNING IRCA. HE CONCLUDES, ESPECIALLY IN LIGHT OF THE GOES' RECENT ASSESSMENT OF 36 YEARS BACK WHARFAGE TAXES, THAT THE GOVERNMENT PLANS A TAKEOVER WITHOUT COMPENSATION. THE AMBASSADOR OFFERED TO SEEK INFO AND ON AUG 14 OBTAINED FROM ACTING FORMIN CASTANEDA A PROMISE TO LOOK INTO THE MATTER. IRCA HAS SOUGHT A SECOND COURT INJUNCTION TO STAY THE TAX ASSESSMENT. END SUMMARY.

2. ABRAHAM WEBER, IRCA PRESIDENT, VISITED EL SALVADOR AUG 12 AND 13 FOR THE FIRST TIME (AS FAR AS THE EMBASSY IS AWARE) SINCE AUG 1972. AT HIS LAWYER'S ADVICE HE CALLED ONLY ON DR SILVA,

MINISTER OF THE PRESIDENCY. WEBER, IN HIS SUBSEQUENT CALL ON THE AMBASSADOR, CHARACTERIZED HIS 15 MINUTES WITH SILVA AS FRUITLESS.

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WEBER SAID HE SOUGHT BUT DID NOT RECEIVE FROM ANY SOURCE AN INDICA-

TION OF GOES INTENTIONS CONCERNING IRCA. HE REITERATED TO SILVA HIS OFFER COMMUNICATED TO SALVADORAN AMBASSADOR BETRAND GALINDO MAY 31, 1974, IE TO TRANSFER TO THE GOES ALL IRCA ASSETS IN EXCHANGE FOR GOES ASSUMPTION OF IRCA'S SALVADORAN DIVISION

OBLIGATIONS AND EITHER A CASH PAYMENT (HE MENTIONED \$2 MILLION) ON LONG-TERM GOES BONDS (EG \$5 MILLION). WEBER SAID SILVA'S RESPONSE WAS NON-COMMITTAL AND THAT THE LACK OF ANY EXPRESSED DESIRE TO DISCUSS AN AMICABLE SETTLEMENT, ESPECIALLY IN LIGHT OF THE RECENT GOES 38 YEARS'S BACK WHARFAGE TAX ASSESSMENT (SEE REFTEL AND PREVIOUS), LED HIM TO CONCLUDE THE GOVERNMENT PLANS FOR POLITICAL REASONS TO TAKE THE RAILROAD WITHOUT COMPENSATION.

3. IN RESPONSE TO WEBER'S AFOREMENTIONED ASSERTION AND HIS STATED INABILITY TO ARRANGE A USEFUL DISCUSSION WITH THE GOES THE AMBASSADOR OFFERED TO IFUIRE ON HIS BEHALF AND RELAY WHAT INFO HE COULD CONCERNING THE GOVERNMENT'S POSITION. WEBER SAID HE WOULD DELAY COMMUNICATING HIS CONCERNS TO SECRETARY KISSINGER FOR AT LEAS THE BETTER PART OF A WEEK IN THE HOPE THIS WOULD BE FRUITFUL.

4. DURING A CALL PREVIOUSLY SCHEDULED ON THE ACTING FORMIN CASTANEDA, AUG 14, THE AMBASSADOR RAISED THE IRCA ISSUE, POINTING OUT (1) OUR MUTUAL INTEREST IN EOIDING ANY EXPROPRIATORY ACTION, EVEN ONE WHICH COULD BE LABELED SUCH; (2) THE UNFORTUNATE APPEARANCE OBTAINED FROM THE GOVERNMENT' SUDDENT ASSESSMENT OF 36 YEARS' BACK TAXES ON IRCA; AND (3) THE REPORTED LACK OF RESPONSE BY THE GOES TO IRCA'S AUG 1972 LIST OF ALTERNATIVES AND THE MORE RECENT SELL OUT PROPOSAL. CASTAOEDA WHO APPEARED UNAWARE OF THE PARTICULARS OF THE IRCA ISSUE, CONFIRMED THE GOES' INTEREST IN AVOIDING AN "EXPROPRIATION" LABEL WHICH WOULD DAMAGE THE INVESTMENT CLIMATE. HE SAID HE WOULD RAISE THE MATTER WITH MINISTER SILVA, ATILIO VIEYTEX OF CONAPLAN, AND LAWYER DR TRIGUEROS AND RESPOND TO THE AMWASSADOR'S INQUIRY. COMMENT: WE WILL REPORT ANY INFO PROVIDED BY CASTANEDA AND SUGGEST WHAT, IF ANYTHING, MAY BE PASSED TO MR WEBER.

5. THE THREE CURRENTLY MOST SIGNIFICANT FACTORS IN THE IRCA ISSUE ARE: 1) THE GENERAL MOTOR'S EXTENSION TO SEPT 30 OF ITS EXCLUSIVE OPTION FOR GOES PURCHASE OF THE 16 IRCA LOCOMOTIVES; LIMITED OFFICIAL USE

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2) THE GOES'S \$2.1 MILLION (COLON EQUIVALENT) BACK TAX ASSESSMENT ON IRCA AND IRCA'S LEGAL APPEAL AGAINST IT; AND 3) THE STATUS, UNKNOWN TO THE EMBASSY, OF OPIC INSURANCE COVERAGE OF THE GM-OWNED LOCOMOTIVES. THERE ARE A NUMBER OF WAYS THE GOES COULD BRING THE IRCA ISSUE TO A HEAD. UNTIL THE RECENTLY IMPOSED BACK TAX ASSESSMENT IT APPEARED THE GOVERNMENT HAD CHOSEN TO USE THE PURCHASE OF THE LOCOMOTIVES TO SET THE STAGE FOR CANCELLATION OF THE CONCESSION. SINCE THAT APPROACH WOULD APPEAR TO INVOLVE MODERATE

RISK TO EL SALVADOR'S FOREIGN INVESTMENT IMAGE IT IS DIFFICULT  
TO UNDERSTAND WHY IT INTRODUCED AT THIS TIME THE MORE EXPLOSIVE  
ISSUE OF A LARGE BACK TAX ASSESSMENT.  
CAMPBELL

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** SITREP, FOREIGN INVESTMENTS, INDUSTRIAL PLANTS, RAILROADS, ROLLING STOCK, POLITICAL SITUATION, TAX ASSESSMENTS, TAX COLLECTIONS, MEETINGS  
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**Draft Date:** 15 AUG 1974  
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